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Contributions to Theory.

FROM THE COMMITTEE ON ECONOMIC THEORY.

Afternoon Session, December 26.

THE CONCEPTS OF UTILITY, VALUE AND COST.

BY PROF. F. H. GIDDINGS OF BRYN MAWR COLLEGE.

A more thorough analysis is the mark that distinguishes the best recent work in economic theory from the dogmatic systems of former years. Nowhere is such analysis more needed than in the fundamental conceptions of the science. Two entirely different concepts are denoted by the term "utility;" two by the recently introduced phrase "subjective value;" and no less than four by the familiar term "cost."

The older idea of utility is that which we find in a crude form in Adam Smith, and in a much more developed form in J. B. Say, who conceives it as objective, and describes it as an "inherent fitness or capability of certain things to satisfy the various wants of mankind." A newer school of writers, of whom Jevons was the leading English representative, conceives of utility as purely subjective. The same material object has different degrees of utility according as the want to which it is inherently capable of ministering has been already more or less satisfied. These concepts should be distinguished as

objective and subjective utility respectively, and the economist who has satisfied himself that in the theory of exchange and distribution he needs only the concept of subjective utility, should not forget that in the theory of production he must employ also the concept of objective utility.

Objective and subjective utilities vary according to different laws—the one with the possible urgency of the want to which a commodity can minister, the other with the actual urgency. Therefore, the theory of production must be two-fold. It must account for the increase of subjective utility, or satisfaction, and for the increase of objective utility, or means of satisfaction. When this is done the concept of total objective utility, which we shall then distinguish from Jevons's concept of total subjective utility, will become of significance for the theory of the productivity of that labor which creates only transient enjoyments. Goods that have a low degree of subjective utility as a means of present enjoyment may have a higher degree if their consumption is deferred, or if they can be consumed in working for the future. But that consumption may be deferred goods must be durable, and work for the future must usually be embodied in durable forms. Thus we get back to something very like Adam Smith's view of productive labor. We cannot draw a sharp line between transient enjoyments and durable goods, and say that the creation of the one is wholly unproductive and the creation of the other wholly productive labor, but we can say that the probability that labor will result in a maximum subjective utility increases as we pass from the production of the relatively transient to the production of the relatively durable forms of objective utility.

Subjective value, properly so-called, must be distinguished from final degree of utility. Utility already effected, we know, or have known, in terms of feeling. Prospective utility we know only by a representative process. We have to get at it indirectly—estimating it; forming judgments about it. It is the intervention of this process of psychological representation, this process of estimating or judging, that marks off *value* from *utility*. Subjective value, therefore, is the intellectual estimation, more or less accurate according to the knowledge and intelligence of different persons and classes, of a final degree of utility that is prospective rather than already effected, and therefore not yet known in terms of feeling. Objective, or market, value, is the resultant of many subjective valuations, compared and expressed in a process of bidding; the resultant itself being expressed ultimately, as a ratio of exchange.

Cost may mean the subjective fatigue involved in production; or the destruction of one objective utility in the production of another, as in the burning up of coal to run a locomotive; or the sacrifice of the best alternative utility, as when a man foregoes one opportunity to improve another; or the sum of the prices paid for the materials and labor entering into production. There can be no sound reasoning on the relation of cost of production to value that ignores these distinctions. Cost in one of these meanings is a cause of value; in another it is an effect of value.